

Message Text

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ORIGIN STR-02

INFO OCT-01 EUR-08 IO-06 ISO-00 STRE-00 EB-04 SS-14
CIAE-00 INR-05 INRE-00 TRSE-00 L-01 /041 R

DRAFTED BY GFEKETEKUTY:STR:JF
APPROVED BY AWWOLFF:STR
WBARRACLOUGH (EB/TP)
DHATHAWAY (AG)

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O 010106Z JUL 78
FM SECSTATE WASHDC
TO AMEMBASSY BRUSSELS IMMEDIATE
INFO USMISSION GENEVA IMMEDIATE

C O N F I D E N T I A L STATE 167551

USEEC /USMTN/LIMDIS - PASS AMBASSADOR HINTON

E.O. 11652: N/A

TAGS: ETRD, MTN

SUBJECT: AMBASSADOR'S DISCUSSION OF MTN ISSUES WITH
EC PRESIDENT JENKINS

REF: BRUSSELS 12860

1. WE AGREE THAT IT WOULD BE A GOOD IDEA FOR YOU TO CALL
ON ROY JENKINS PER REFTEL.

2. SUGGEST YOU TELL HIM THAT WE CONSIDER A SUCCESSFUL MTN
PACKAGE THE CRUCIAL ELEMENT OF THE ECONOMIC SUMMIT IN
BONN. WITHOUT THE SUCCESSFUL NEGOTIATION OF SUCH PACKAGE
BEFORE THE SUMMIT, WE RISK A MAJOR FAILURE AT THE SUMMIT.

3. WE WERE RATHER DISTRESSED THAT THE RECENT MEETING OF
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THE COUNCIL OF MINISTERS DID NOT HAVE A MORE POSITIVE
OUTCOME, PARTICULARLY ON AGRICULTURE AND ON SUBSIDIES.

4. AS U.S. HAS MADE REPEATEDLY CLEAR THERE CANNOT BE AN
MTN AGREEMENT ACCEPTABLE TO THE U.S. WITHOUT A
SIGNIFICANT AGRICULTURAL COMPONENT. THERE HAS BEEN

PROGRESS IN THE GRAINS NEGOTIATIONS IN LONDON AND WE ARE CONFIDENT REMAINING ISSUES THERE CAN BE WORKED OUT. BUT GRAINS ALONE WOULD BE AN UNACCEPTABLE PACKAGE. THE U.S. WILL NEED EC OFFERS ON SPECIFIC PRODUCTS OF INTEREST TO US, PARTICULARLY THE "STRAUSS ITEMS": TOBACCO, CITRUS, ETC. WE UNDERSTAND THE EC'S INTEREST IN DAIRY, AND ARE PREPARED TO PURSUE THIS BUT ONLY WHEN WE CAN SEE SOME PROGRESS ON AGRICULTURAL PRODUCTS OF INTEREST TO THE U.S. TO DATE THERE HAS BEEN NONE.

5. WE ARE PARTICULARLY DISTRESSED BY THE NARROW APPROACH EC SEEMS TO BE TAKING ON DISCIPLINE OF AGRICULTURAL EXPORT SUBSIDIES. IF THE EC CONTINUES TO TAKE THE POSITION THAT EXISTING GATT PROVISIONS ON AGRICULTURAL SUBSIDIES CANNOT BE CHANGED WE ARE IN GRAVE RISK OF FAILURE IN THE MTN. AS ROY DENMAN POINTED OUT RECENTLY, FAILURE TO RESOLVE AGRICULTURAL SUBSIDY ISSUES ALSO HAS SHORT TERM CONSEQUENCES. THE EXPIRATION OF THE U.S. COUNTERVAILING DUTY WAIVER IN THE TRADE ACT ON JANUARY 2, 1979, WOULD BRING US BACK INTO HOSTILITIES ON CHEESE AND CANNED HAMS, AND A FEW LESSER PRODUCTS. WE CAN ONLY AVOID THIS BY A SETTLEMENT BY JULY 15, IF IT IS NOT TOO LATE ALREADY. THE EC NEEDS TO BE ACUTELY AWARE THAT WE CAN ONLY SEEK EXTENSION OF THE WAIVER IN THE BRIEF WINDOW BETWEEN SEPTEMBER 1 AND THE ADJOURNMENT OF CONGRESS IN EARLY
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OCTOBER. TO DO SO REQUIRES AGREEMENT ON AN ACCEPTABLE SUBSIDY COUNTERVAILING DUTY CODE WHICH INCLUDES MUTUALLY ACCEPTABLE PROVISIONS ON AGRICULTURAL EXPORT SUBSIDIES,

AS WELL AS ON GUIDELINES FOR DOMESTIC SUBSIDIES. IT IS, THEREFORE, ABSOLUTELY ESSENTIAL FOR THE EC TO SHOW FLEXIBILITY ON THESE ISSUES BETWEEN NOW AND JULY 15.

6. ANOTHER POLITICAL MUST ITEM FOR THE U.S. IS AN ACCEPTABLE AGREEMENT ON THE APPLICATION OF RULES OF ORIGIN. THE RIGID APPLICATION OF THE EC'S RULES OF ORIGIN ON U.S. FABRIC AND ELECTRONIC EXPORTS IS NOW HAVING A REAL, MEASURABLE, AND HIGHLY UNFAVORABLE IMPACT. WITH RESPECT TO FABRIC EXPORTS, A SAMPLING OF CASES REPORTED TO EITHER COMMERCE OR STR OVER THE PAST SEVERAL MONTHS INDICATES THE DAMAGE MAY ALREADY BE AS HIGH AS \$80 TO \$100 MILLION. AS WE EXPECT FURTHER CASES TO BE REPORTED, WE SUSPECT THE ABOVE SAMPLING MAY BE ONLY THE TIP OF THE ICEBERG, ESPECIALLY AS THE EC'S ENFORCEMENT TAKES EVEN FIRMER HOLD.

ATMI ESTIMATES THAT IF THE PRESENT EC APPLICATION CONTINUES, THE DAMAGE WILL EXCEED \$250 MILLION IN 1978.

(THESE FABRIC EXPORTS HAVE RANGED IN RECENT PRIOR YEARS
BETWEEN \$400 AND \$500 MILLION.)

7. A SUCCESSFUL MTN PACKAGE MUST ALSO INCLUDE EC
TARIFF OFFERS AND A GOVERNMENT PROCUREMENT CODE THAT
MEETS KEY U.S. EXPORT INTERESTS. WE CANNOT ACCEPT AN
EC OFFER THAT SYSTEMATICALLY EXCLUDES IMPROVED MARKET
ACCESS FOR SUCH U.S. EXPORT INDUSTRIES AS PAPER,
MACHINERY, TRUCKS, SCIENTIFIC INSTRUMENTS, ELECTRICAL
EQUIPMENT, COMPUTERS AND CHEMICALS.

8. WITH RESPECT TO STRAUSS ITEMS IN PARAGRAPH 4, ADD
POULTRY, BEEF, RICE, TABLE GRAPES AND VARIETY MEATS. VANCE

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SUMMIT MEETINGS, ECONOMIC ESTIMATES
Control Number: n/a
Copy: SINGLE
Draft Date: 01 jul 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE167551
Document Source: CORE
Document Unique ID: 00
Drafter: STR:JF
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780271-0925
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197807102/aaaadijn.tel
Line Count: 128
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 2e62566b-c288-dd11-92da-001cc4696bcc
Office: ORIGIN STR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 78 BRUSSELS 12860
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 19 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1853618
Secure: OPEN
Status: NATIVE
Subject: AMBASSADOR'S DISCUSSION OF MTN ISSUES WITH EC PRESIDENT JENKINS
TAGS: ETRD, MTN
To: BRUSSELS USEEC MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/2e62566b-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014